

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**Financial Statements**  
**Tuscola County Community**  
**Mental Health Authority**

**Caro, Michigan**

**September 30, 2007**



Tuscola County Community Mental Health Authority  
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September 30, 2007

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## **INDEPENDENT AUDITOR'S REPORT**

Tuscola County Community Mental Health Authority  
Caro, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tuscola County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Roslund, Prestage & Co, PC".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 15, 2008

## **MANAGEMENT'S DISCUSSION and ANALYSIS**



# **Tuscola County Community Mental Health Authority**

## **Management's Discussion and Analysis**

*For the year ended September 30, 2007*

This section of the Tuscola County Community Mental Health Authority (TCCMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report, financial statements, notes to financial statements and supplemental information taken as a whole.

### **FINANCIAL HIGHLIGHTS**

- The current financial position, which is the excess of current assets over current liabilities, of TCCMHA was a positive \$379 thousand an increase from FY06 of \$53 thousand.
- Capital assets increased by \$953 thousand or 44% from FY06.
- Funds restricted for capital purposes increased by \$88 thousand or 11% from FY06. Unrestricted net assets decreased by \$64 thousand or 10% from FY06.

### **OPERATING HIGHLIGHTS**

TCCMHA continued its commitment to the consumers of Tuscola County.

- During 2006, TCCMHA began a review of their building needs and anticipated future needs. Two of the three current leases for office/program space expired in 2007 and the third was set to expire in 2008. After review of building needs, TCCMHA purchased the Personal Independence Center building in April from the Village of Caro. This building was renovated to accommodate clinical services which had previously been located at the Echols building, in addition to the skill building, case management, supports coordination and psychiatric services which it was already housing. The lease on the Lincoln Street building ended and Administrative services were moved to the Echols Building, which is owned by TCCMHA. A buy out of the third lease, for the Almer Street building, was completed during September.
- TCCMHA has continued efforts to enhance community inclusion and participation for consumers by expanding service locations to include non-facility based settings located within Tuscola County. TCCMHA has established a community volunteer program as a component of the skill building services provided, offering consumers an opportunity to interact with various organizations and individuals within their communities.

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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- In 2007, TCCMHA continued to expand its use of Evidence Based Practices in clinical treatment. In addition, TCCMHA also implemented a fidelity based model of Dialectical Behavior Therapy (DBT). A select group of TCCMHA staff became certified DBT providers and began offering DBT as a form of cognitive-behavioral treatment. The program has been successful thus far, yielding positive outcomes for consumers.
- During 2007, TCCMHA continued to show support for the employment of consumers as Peer Support Specialists within the public mental health system. TCCMHA hired a part-time Peer Support Specialist who subsequently became a full-time employee on the Assertive Community Treatment Team within the first year of employment. The Peer Support Specialist works in partnership with consumers to increase community inclusion/participation, independence, recovery and productivity.

## **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are government-wide financial statements and fund financial statements.

**Government-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when earned and expenses recorded when incurred, without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are measurable and currently available are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with



**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are general fund financial statements and proprietary fund financial statements.

General fund financial statements show how the community mental health supports and services programs were financed in the short term, along with what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

**Tuscola County Community Mental Health Authority**  
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*For the year ended September 30, 2007*

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## **SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2007 and 2006.

### **Summary of Net Assets**

*As of September 30, 2007 and 2006*

*(In \$000s)*

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>
<b><u>Assets</u></b>			
Current assets	\$ 1,730	\$ 1,599	131
Restricted assets	334	423	(89)
Capital assets	3,096	2,143	953
<b>Total assets</b>	<u><u>\$ 5,160</u></u>	<u><u>\$ 4,165</u></u>	<u><u>\$ 995</u></u>
<b><u>Liabilities</u></b>			
Current liabilities	\$ 1,351	\$ 1,273	78
Noncurrent liabilities	2,381	1,467	914
<b>Total liabilities</b>	<u><u>3,732</u></u>	<u><u>2,740</u></u>	<u><u>992</u></u>
<b><u>Net Assets</u></b>			
Investment in capital assets	878	790	88
Restricted for risk management	-	21	(21)
Unrestricted	550	614	(64)
<b>Total net assets</b>	<u><u>1,428</u></u>	<u><u>1,425</u></u>	<u><u>3</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 5,160</u></u>	<u><u>\$ 4,165</u></u>	<u><u>\$ 995</u></u>

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The current financial position was a positive \$379 thousand for FY07 and \$326 for FY06.

Current assets consist of cash and investments, accounts receivable, amounts due from others, inventory and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue, and the current portion of long-term debt.

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**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**Restricted assets** consist of cash and cash equivalents. These assets are restricted for payment of compensated absences and restricted for risk management.

The assets restricted for payment of compensated absences include vacation, sick and personal pay. At year-end, the balance in this account was \$311 thousand.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. As of the beginning of fiscal year 2007, capital assets having an original book value of \$3.9 million were recorded, net of restated accumulated depreciation of \$1.8 million, for a beginning net book value of \$2.1 million.

In fiscal year 2007, \$1.2 million was expended for capital acquisitions, of which \$1.16 million was to purchase and renovate the Personal Independence Center building. Depreciation expense on previously existing and newly acquired capital assets was \$215 thousand. In fiscal year 2007, \$7.3 thousand was recognized as a net loss on disposal of assets. The net change in capital assets was an increase of \$953 thousand for the year.

As of year-end, the net book value of capital assets was 63% of the original book value compared to 54% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** consist of long-term debt related to the acquisition of capital assets and the liability for compensated absences. Principal payments for the year were \$136 thousand. The liability for compensated absences includes vested vacation and sick pay obligations and certain deferred compensation amounts. The compensated absences liability at year end was \$316 thousand.

**Restricted net assets** include investment in capital assets, net of related debt, and amounts restricted for risk management. These were discussed above.

**Unrestricted net assets** at the end of the year were \$550 thousand. Unrestricted net assets were 11% of total assets, down from 15% from the prior year.

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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## **SUMMARY OF ACTIVITIES**

The following summarizes the revenues, expenses and change in net assets on a government-wide basis for the years ended September 30, 2007 and 2006.

### **Summary of Activities**

*For the years ended September 30, 2007 and 2006*

(In \$000s)

	<u>2007</u>	<u>2006</u>	<u>\$ Change</u>	<u>% Change</u>
<b><u>Revenue</u></b>				
Medicaid specialty supports and services	\$ 10,626	\$ 10,861	(235)	-2%
State general fund priority populations	1,636	1,575	61	4%
Adult benefits waiver supports and services	172	155	17	11%
Program service revenue	255	197	58	29%
Grants and earned contracts	92	212	(120)	-57%
Cass Valley Enterprises	820	1,243	(423)	-34%
County appropriation	288	288	-	0%
Interest income	84	48	36	75%
Other income	29	47	(18)	-38%
<b>Total Revenue</b>	<b>14,002</b>	<b>14,626</b>	<b>(624)</b>	<b>-4%</b>
<b><u>Expense</u></b>				
Personnel expense	6,022	6,077	(55)	-1%
Operating expense	7,404	8,076	(672)	-8%
Local funds contributed to State	283	283	-	0%
Interest expense	75	55	20	36%
Depreciation	215	212	3	1%
<b>Total Expense</b>	<b>13,999</b>	<b>14,703</b>	<b>(704)</b>	<b>-5%</b>
<b>Change in Net Assets</b>	<b>\$ 3</b>	<b>\$ (77)</b>		

**Excess of revenue over expense** from activities for the current year was \$3 thousand.

**Medicaid specialty supports and services revenue** represents 76% of total revenue. Beginning in fiscal 2003, the Michigan Department of Community Health began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. TCCMHA is affiliated with Bay-Arenac Behavioral Health as the designated PIHP for a region consisting of Bay, Arenac, Huron, Montcalm, Shiawassee, and Tuscola counties. TCCMHA subcontracts

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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Arenac, Huron, Montcalm, Shiawassee, and Tuscola counties. TCCMHA subcontracts for Medicaid funding through the PIHP. This subcontract is on a net cost basis. Medicaid subcontract funds due to TCCMHA of \$4 thousand are included in revenue and are shown as amounts due from the PIHP as discussed above.

**State general fund priority population revenue** (formula funding) represents 12% of total revenue. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. The full amount of the GF ISF was utilized in FY07 for \$23 thousand, which was utilized to cover state facility expenditure increases.

**Adult benefits waiver supports and services revenue** represents 1% of total revenue. The adult benefits waiver program was new in fiscal 2004. This program is funded by state general funds and provides health insurance coverage to uninsured childless adults with countable incomes at or below 35% of the federal poverty level.

**Program service revenue** includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 2% of total revenue.

**Grants and earned contract revenue** includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1% of total revenue.

**County appropriation revenue**, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2% of revenue.

**Cass Valley Enterprises revenue** includes revenue earned through various industrial operations contracts. These revenue sources constitute 6% of revenue.

**Total expense** of \$14 million has decreased \$704 thousand compared to the prior year.

**Personnel expense** is 43% of total expense and has decreased due to staff reductions.

**Operating expense** is 53% of total expense and has decreased. The largest contributing factor is decreased sales and production costs at Cass Valley Enterprises.

**Interest expense** is less than 1% of total expenses and has increased due to the building purchase in FY07.

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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**Statement of Revenues and Expenditures – Original & Final Budget**

The following summarizes the original and final budget for revenues and expenses for the year ending September 30, 2007.

**Statement of Revenues and Expenditures - Original and Final Budget**  
*For the Year Ended September 30, 2007*  
*(in \$000s)*

	Budgeted Amounts		
	Final	Original	Variance
Revenue			
State General Fund - MDCH Contract	1,631	1,689	(58)
Adult Benefit Waiver	172	145	27
Title XX	6	6	-
Federal Grants	38	44	(6)
Tuscola County Appropriations	288	288	-
Medicaid - PIHP	10,622	10,359	263
Medicaid - Other	64	70	(6)
Client and third Party Pay	189	256	(67)
Contract Revenue	49	30	19
Interest	82	54	28
Cass Valley Enterprises	809	1,836	(1,027)
Other	32	50	(18)
Total Revenue	13,982	14,827	(845)
Expenditure			
Salary and Wages	4,598	4,875	(277)
Fringe Benefits	1,450	1,501	(51)
Operating Expenditures	7,608	8,139	(531)
Capital Outlay	1,150	60	1,090
Debt Service	207	228	(21)
Total Expenditures	15,013	14,803	210
Excess of revenues over expenditures	(1,031)	24	(1,055)

Final versus actual budget variances in state general fund include an increase for use of general fund savings, ISF and a decrease for a carry forward into FY08 of \$53 thousand. Cass Valley Enterprises had a decrease in budgeted revenue due to a decrease in contract revenue. This change also affected salaries, fringe benefits and cost of goods sold. Medicaid revenue increased from the original budget due to an

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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increase for the direct care worker wage pass through and increased cost from residential and inpatient claims.

**Statement of Revenues and Expenditures – Final Budget & Actual**

The following summarizes the final budget and actual results for revenues and expenses for the year ending September 30, 2007.

**Statement of Revenues and Expenditures - Final Budget & Actual**  
*For the Year Ended September 30, 2007*  
*(in \$000s)*

	<u><b>Final Budget</b></u>	<u><b>Actual</b></u>	<u><b>Variance</b></u>
<b>Revenue</b>			
State General Fund - MDCH Contract	1,631	1,635	4
Adult Benefit Waiver	172	172	-
Title XX	6	6	-
Federal Grants	38	39	1
Tuscola County Appropriations	288	288	-
Medicaid - PIHP	10,622	10,626	4
Medicaid - Other	64	64	-
Client and third Party Pay	189	191	2
Contract Revenue	49	48	(1)
Interest	82	82	-
Cass Valley Enterprises	809	820	11
Other	<u>32</u>	<u>29</u>	<u>(3)</u>
<b>Total Revenue</b>	<b>13,982</b>	<b>14,000</b>	<b>18</b>
<b>Expenditures</b>			
Salary and Wages	4,598	4,576	22
Fringe Benefits	1,450	1,446	4
Operating Expenditures	7,608	7,665	(57)
Capital Outlay	1,150	1,175	(25)
Debt Service	<u>207</u>	<u>211</u>	<u>(4)</u>
<b>Total Expenditure</b>	<b>15,013</b>	<b>15,073</b>	<b>(60)</b>
<b>Excess of revenues over expenditures</b>	<u><b>(1,031)</b></u>	<u><b>(1,073)</b></u>	<u><b>(42)</b></u>

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2007*

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State General Fund – MDCH contract represents management's decision to utilize the ISF balance of \$23 thousand on current FY07 general fund state facility expenditures.

Medicaid – PIHP represents the subcontract for Medicaid services which is settled on a net cost basis. Additional revenue was recorded based on the additional year end expenses.

Operating Expenditures represents management's year end external claims processed over the estimated accrual.

## **FUTURE OUTLOOK**

Once again, the State of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. Budgetary and operating priorities for next year and beyond include the following:

- Elimination of debt through the expansion of Cass Valley Enterprises and other means.
- Expansion of Cass Valley Enterprises operations through new contracts.
- Recruitment of a full-time psychiatrist.
- Maximization of collaborative efforts throughout the affiliation to increase efficiency and economies of scale.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.



# **BASIC FINANCIAL STATEMENTS - GOVERNMENT WIDE FINANCIAL STATEMENTS**



Tuscola County Community Mental Health Authority  
Statement of Net Assets  
September 30, 2007 and 2006

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and equivalents	\$22,765	\$18,569
Investments	1,163,203	579,200
Accounts receivable	106,825	260,200
Due from other governmental units	121,276	492,356
Inventory	176,841	83,386
Prepaid items	138,630	165,096
Total current assets	1,729,540	1,598,807
Noncurrent assets		
Cash and cash equivalents - restricted	333,929	422,774
Capital assets - depreciable, net	2,890,980	2,003,031
Capital assets - land	205,101	140,101
Total noncurrent assets	3,430,010	2,565,906
Total assets	5,159,550	4,164,713
<b>Liabilities</b>		
Current liabilities		
Accounts payable	722,463	588,229
Accrued wages and other payroll liabilities	287,296	339,502
Deferred revenue	53,474	84,138
Due to other governmental units	134,529	73,297
Notes payable, current portion	152,701	188,028
Total current liabilities	1,350,463	1,273,194
Noncurrent liabilities		
Notes payable, net of current portion	2,065,422	1,164,865
Compensated absences	315,675	301,494
Total noncurrent liabilities	2,381,097	1,466,359
Total liabilities	3,731,560	2,739,553
<b>Net Assets</b>		
Invested in capital assets, net of related debt	877,958	790,239
Restricted for risk management	-	21,083
Unrestricted	550,032	613,838
Total net assets	\$1,427,990	\$1,425,160

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Activities  
For the Year Ended September 30, 2007, With Comparative Data

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets	2006
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$13,999,221</u>	<u>\$10,928,284</u>	<u>\$2,990,192</u>	(\$80,745)	(\$124,610)
General revenues					
Unrestricted investment earnings				81,928	46,371
Restricted investment earnings				<u>1,647</u>	<u>1,362</u>
Total general revenues				<u>83,575</u>	<u>47,733</u>
Change in net assets				2,830	(76,877)
Net assets - beginning of year				1,425,160	1,427,926
Prior period adjustment				<u>-</u>	<u>74,111</u>
Net assets - end of year				<u>\$1,427,990</u>	<u>\$1,425,160</u>

See Accompanying Notes To Financial Statements

## **FUND FINANCIAL STATEMENTS**



Tuscola County Community Mental Health Authority  
Balance Sheet  
Governmental Funds  
September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Assets</b>		
Cash and equivalents	\$22,765	\$18,569
Investments	1,163,203	579,200
Accounts receivable	106,825	260,200
Due from other funds	22,730	88,515
Due from other governmental units	121,276	492,356
Inventory	176,841	83,386
Prepaid items	138,630	165,096
Restricted cash	311,199	313,176
Total assets	<u>\$2,063,469</u>	<u>\$2,000,498</u>
<b>Liabilities</b>		
Accounts payable	\$722,463	\$588,229
Accrued wages and other payroll liabilities	287,296	339,502
Deferred revenue	53,474	84,138
Due to other governmental units	134,529	73,297
Total liabilities	<u>1,197,762</u>	<u>1,085,166</u>
<b>Fund balances</b>		
Reserved	449,829	478,272
Unreserved	415,878	437,060
Total fund balances	<u>865,707</u>	<u>915,332</u>
Total liabilities and fund balances	<u>\$2,063,469</u>	<u>\$2,000,498</u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended September 30, 2007

Total fund balance - governmental funds	\$865,707
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	4,916,027
Deduct: accumulated depreciation	(1,819,946)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Deduct: notes payable	(2,218,123)
Deduct: compensated absences	<u>(315,675)</u>

Net assets of governmental activities	<u><u>\$1,427,990</u></u>
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See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Years Ending September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>REVENUES</b>		
State grants		
State general fund - MDCH Contract	\$1,635,585	\$1,575,411
Adult Benefit Waiver	171,795	155,073
Title XX	5,843	5,843
Total state grants	<u>1,813,223</u>	<u>1,736,327</u>
Federal grants	<u>39,102</u>	<u>50,171</u>
Contributions - local units		
County appropriations	<u>288,243</u>	<u>288,243</u>
Charges for services		
Medicaid - affiliate	10,626,149	10,860,924
Medicaid - other	64,205	84,395
Client and third party pay	190,578	231,145
Contract revenue	47,352	37,303
Total charges for services	<u>10,928,284</u>	<u>11,213,767</u>
Interest and rents		
Interest	81,928	46,371
Other revenue		
Cass Valley Enterprises	820,036	1,242,840
Other	29,588	47,019
Total other revenue	<u>849,624</u>	<u>1,289,859</u>
Total revenues	14,000,404	14,624,738

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Years Ending September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>EXPENDITURES</b>		
Health & welfare - mental health		
Personnel costs	\$6,022,492	\$6,077,629
Operating expenditures	7,664,795	8,362,301
Capital outlay	1,175,339	119,260
Debt service		
Interest	75,363	55,407
Principal	135,772	142,178
Total expenditures	15,073,761	14,756,775
Excess of revenues over expenditures	(1,073,357)	(132,037)
Other financing sources (uses)		
Loan proceeds	1,001,002	113,279
Operating transfers in - internal service fund	22,730	88,516
Total other financing sources (uses)	1,023,732	201,795
Excess of revenues and other sources over (under) expenditures and other uses	(49,625)	69,758
Fund balance, beginning of year	915,332	834,884
Prior period adjustment	-	10,690
Fund balance, end of year	\$865,707	\$915,332

See Accompanying Notes To Financial Statements



Tuscola County Community Mental Health Authority  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended September 30, 2007

Net change in fund balances - total governmental funds (\$49,625)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: capital outlay	1,175,339
Deduct: depreciation expense	(215,096)
Deduct: loss on disposal of capital assets	(7,294)

An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of this fund is reported within governmental activities.

Deduct: change in net assets from governmental internal service fund	(21,083)
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Fixed assets acquired by long term loans are shown as an expenditure and other financing source in the governmental funds. The other financing source must be removed from the statement of activities; principal payments are applied to the long term liability; interest expense is recognized as it accrues.

Deduct: loan proceeds	(1,001,002)
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Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

Add: principal payments on long term debt	135,772
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Deduct: increase in accrual for compensated absences	(14,181)
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Change in net assets of governmental activities	\$2,830
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See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Net Assets  
Proprietary Funds  
September 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
Assets		
Cash	\$22,730	\$109,598
Total assets	22,730	109,598
Liabilities		
Due to other funds	22,730	88,515
Net assets		
Restricted for risk management	-	\$21,083

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Years Ended September 30, 2007 and 2006

	<u>Internal Service Funds</u>	
	<u>2007</u>	<u>2006</u>
Non-operating revenues		
Interest income	\$1,647	\$1,362
Operating transfers		
Operating transfers in (out) - general fund	<u>(22,730)</u>	<u>(88,516)</u>
Change in net assets	(21,083)	(87,154)
Prior period adjustment	-	63,421
Net assets, beginning of year	<u>21,083</u>	<u>44,816</u>
Net assets, end of year	<u><u>-</u></u>	<u><u>\$21,083</u></u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Cash Flows  
Proprietary Funds  
For the Years Ended September 30, 2007 and 2006

	Internal Service Funds	
	2007	2006
Cash flows from operating activities	-	-
Cash flows from investing activities		
Interest revenue	\$1,647	\$1,362
Cash flows from noncapital financing activities		
Internal activity - payments (to)/from other funds	<u>(88,515)</u>	<u>55,552</u>
Net increase (decrease) in cash	(86,868)	56,914
Cash and cash equivalents, beginning of year	<u>109,598</u>	<u>52,684</u>
Cash and cash equivalents, end of year	<u><u>\$22,730</u></u>	<u><u>\$109,598</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

See Accompanying Notes To Financial Statements

## **NOTES TO THE FINANCIAL STATEMENTS**



Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Tuscola County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Tuscola County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.



Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

**Restricted Cash Equivalents**

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30. Cash has been restricted for future payment of the compensated absence liability as well as to fund the net uninsured exposure of potential shortfalls of risk contract revenues. These restricted assets are held in separate cash accounts with local financial institutions.

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental units consist primarily of amounts due from Tuscola County and the Michigan Department of Community Health.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**Inventory**

Inventory is recorded at the lower of cost or market on a first-in, first-out basis. The cost is recorded as an expenditure at the time individual inventory items are sold rather than when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Land	N/A
Buildings and Improvements	20 – 30
Equipment and Furnishings	5 – 10
Computers	3
Vehicles	5

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in due to other governmental units.

**Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences are examples of the latter.

**MDCH Revenue**

*General Fund Revenue*

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Tuscola County.

*Medicaid Revenue*

Also, the Authority contracts to receive Medicaid revenue through Bay-Arenac Behavioral Health for Medicaid-qualified services rendered to residents of Tuscola County. Bay-Arenac Behavioral Health contracts with the MDCH to administer these Medicaid funds.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess of Expenditures over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2007, the Authority incurred expenditures in excess of the amounts appropriated as shown at the back of this report.

**NOTE 3 – DETAIL NOTES**

**Cash and cash equivalents**

At September 30, the carrying amount of the Authority's cash and cash equivalents are as follows:

	<b>2007</b>	<b>2006</b>
Petty cash	\$1,730	\$1,530
Checking and savings accounts	354,964	439,813
<b>Totals</b>	<b>\$356,694</b>	<b>\$441,343</b>

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2007, the carrying amount of the Authority's deposits was \$354,964, and the bank balance was \$771,969. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents – current assets	\$21,035	\$17,039
Cash and cash equivalents – restricted assets	333,929	422,774
<b>Totals</b>	<b>\$354,964</b>	<b>\$439,813</b>

**Investments**

As of September 30, 2007, the Authority had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (years)</b>	<b>Fitch Rating</b>	<b>%</b>
Michigan Cooperative Liquid Asset Securities System (MI CLASS)	\$1,163,203	0.1296	AAA/V1	100%
1 day maturity equals 0.0027, one year equals 1.00				

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Authority's investments.

The Authority's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

	<b>2007</b>	<b>2006</b>
State of Michigan – Medicaid	\$5,858	\$28,875
Department of Community Health	27,082	975
County of Tuscola	72,061	72,061
Department of Community Health OBRA Grant	4,446	15,123
Various Other Governmental Units	7,840	-
Bay-Arenac Behavioral Health	3,989	375,322
<b>Totals</b>	<b>\$121,276</b>	<b>\$492,356</b>

**Changes in Capital Assets**

A summary of changes in the Authority's capital assets follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals/ Adjustments</b>	<b>Ending Balance</b>
Land	\$140,101	\$65,000	-	\$205,101
Buildings and Improvements	1,804,170	1,110,339	-	2,914,509
Equipment and Furnishings	462,777	-	(\$18,151)	444,626
Computers	239,421	-	(5,108)	234,313
Vehicles	1,348,370	-	(230,892)	1,117,478
Sub-total	3,994,839	1,175,339	(254,151)	4,916,027
<b>Accumulated Depreciation</b>				
Buildings and Improvements	(246,778)	(88,714)	16,734	(318,758)
Equipment and Furnishings	(286,572)	(23,931)	(3,062)	(313,565)
Computers	(239,421)	-	5,108	(234,313)
Vehicles	(1,078,936)	(102,451)	228,077	(953,310)
Sub-total	(1,851,707)	(215,096)	246,857	(1,819,946)
<b>Totals</b>	<b>\$2,143,132</b>	<b>\$960,243</b>	<b>(\$7,294)</b>	<b>\$3,096,081</b>

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

**Due to Other Governmental Units**

Due to other governmental units as of September 30, consist of the following:

	<b>2007</b>	<b>2006</b>
State of Michigan-Inpatient Liability	\$102,839	\$73,297
Bay-Arenac Behavioral Health	20,698	-
State of Michigan-Department of Community Health	10,992	-
<b>Totals</b>	<b>\$134,529</b>	<b>\$73,297</b>

**Deferred Revenue**

The deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

**Long-Term Liabilities – Compensated Absences**

Authority policy allows full time employees to accumulate "paid time off" at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used or upon termination of employment, provided the employee has worked for the Authority for at least one year. As of September 30, 2007 and 2006, compensated absences liability was \$315,675 and \$301,494, respectively.



Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**Long Term Debt – Notes Payable**

*Vehicle Loans*

During the 2003 year, the Authority entered into one promissory note contract with Northstar Bank in Caro, Michigan for the purchase of three vehicles. Payments are due monthly in the amount of \$913, including interest at the rate of 4.9% per annum. As of September 30, 2007, the balance of this loan totals \$11,537.

During the 2004 year, the Authority entered into one promissory note contract with Northstar Bank in Caro, Michigan for the purchase of four vehicles. Payments are due monthly in the amount of \$1,212, including interest at the rate of 4.9% per annum. As of September 30, 2007, the balance of this loan totals \$15,416.

During the 2005 year, the Authority entered into two promissory note contracts with Northstar Bank in Caro, Michigan for the purchase of two vehicles. Payments are due monthly in the amount of \$1,269, including interest at the rate of 4.9% per annum. As of September 30, 2007, the balance of these loans total \$32,063.

During the 2006 year, the Authority entered into two promissory note contracts with Northstar Bank in Caro, Michigan for the purchase of five vehicles. Payments are due monthly in the amount of \$1,747, including interest at the rate of 5.5% and 6.75% per annum. As of September 30, 2007, the balance of these loans total \$71,208.

During the 2006 year, the Authority entered into a promissory note contract with GMAC for the purchase of one vehicle. Payments are due monthly in the amount of \$378, including interest at the rate of 0% per annum. As of September 30, 2007, the balance of this loan totals \$16,988.

*Building Loan*

During the 2003 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. During the 2005 year, the Authority refinanced this loan. Payments are due monthly in the amount of \$4,380, including interest at the rate of 4.05% per annum. As of September 30, 2007, the balance of this loan totals \$525,269.

During the 2004 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. Payments are due monthly in the amount of \$3,417, including interest at the rate of 3.9% per annum. As of September 30, 2007, the balance of this loan totals \$383,761.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

During the 2005 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. Payments are due monthly in the amount of \$836, including interest at the rate of 4.15% per annum. As of September 30, 2007, the balance of this loan totals \$160,880.

During the 2007 year, the Authority entered into a promissory note contract with Citizens Bank in Flint, Michigan for the purchase of real property. Principal and interest payments are due monthly in the amount of \$9,068 beginning January 2008, with interest at the rate of 5.870% per annum. As of September 30, 2007, the balance of this loan totals \$1,001,002.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2007 are as follows, including total interest payments of \$678,861.

<b>Year Ended September 30,</b>	<b>Amount</b>
2008	\$279,840
2009	255,042
2010	240,401
2011	232,598
2012	212,421
2013 – 2017	1,342,940
2018 – 2022	212,651
2023 – 2027	50,181
2028 – 2032	50,181
2033 – 2037	20,729

The changes in long term liabilities during the 2007 fiscal year are as follows:

<b>Liability</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Compensated Absences	\$301,494	\$14,181	-	\$315,675	-
Vehicle Loans	223,584	-	\$76,372	147,212	\$57,661
Building Loans	1,129,309	1,001,002	59,400	2,070,911	95,040
<b>Totals</b>	<b>\$1,654,387</b>	<b>\$1,015,183</b>	<b>\$135,772</b>	<b>\$2,533,798</b>	<b>\$152,701</b>

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

**Operating Leases**

Tuscola County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, are as follows:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2008	\$27,484
2009	-0-
2010	-0-
Thereafter	-0-

**Employee Retirement Systems**

**MERS**

*Plan Description*

The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2006. The Authority's payroll for the employees covered by the system for the year ended December 31, 2006 was \$4,171,493.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

As of December 31, 2006, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	23
Active plan participants	109
Vested former members	22
Total	154

**Funding Policy**

Under the provisions of this plan, employees contribute 5% of annual compensation. The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2007, employer contributions to this retirement plan were \$101,511.

For the 2008 fiscal year, employer contributions will be at the rate of 2.38% of active employee wages.

**Funding Status and Progress**

The amount shown below as the “pension benefit obligation” is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan’s funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

At December 31, 2006, the assets were more than the pension benefit obligation by \$321,469, determined as follows:

<b><i>GASB 25 Information</i></b>	
<i>Actuarial Accrued Liability</i>	
Retirees and beneficiaries currently receiving benefits	\$2,643,714
Terminated employees not yet receiving benefits	1,393,885
Non-vested terminated employees (pending refunds of accumulated member contributions)	104,392
Current Employees:	
Accumulated employee contributions including allocated investment income	1,384,123
Employer financed	3,115,325
Total actuarial accrued liability	8,641,439
Net assets available for benefits at actuarial value (market = \$9,088,290)	8,962,908
Unfunded (over funded) actuarial accrued liability	\$(321,469)
<b><i>GASB 27 Information</i></b>	
Fiscal Year Beginning	October 1, 2008
Annual Required Contribution (ARC)	\$143,400
Amortization factor used – under-funded liabilities (30 years)	.054719
Amortization factor used – under-funded liabilities (10 years)	.119963

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-04	7,726,043	6,995,609	(730,434)	0%
12-31-05	8,330,412	7,525,900	(804,512)	0%
12-31-06	8,962,908	8,641,439	(321,469)	0%

### Principal Financial Group

#### Plan Description

Effective October 1, 1997, the Authority was considered a new governmental entity, and voted to join an optional retirement plan instead of the Social Security system for full time employees 18 years or older.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

Funding Policy

Principal Life Insurance Company is the firm used to invest plan funds. Full Time employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions are 6.2% of employee wages. These are the same contribution rates as the Social Security rates. Under this plan, employees are always 100% vested in their account.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

**Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

**Risk Management**

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

MMRMA's coverage limits are between \$0 and \$5,000,000 for liability and between \$10,000 and \$100,000,000 for property and crime.

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

The contribution made by the Authority to MMRMA was \$144,241 for the period July 1, 2007 to July 1, 2008.

**Managed Care Risk Contract**

In prior years the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.

**Prior Period Adjustment**

The following transactions were recognized in these financial statements as prior period adjustments:

<b>Description</b>	<b>2007</b>	<b>2006</b>
Adjustments to prior year cost settlements	\$	\$74,111
<b>Totals</b>	<b>\$</b>	<b>\$74,111</b>

Tuscola County Community Mental Health Authority  
Notes to Financial Statements

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## **REQUIRED SUPPLEMENTAL INFORMATION**



Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For the Year Ended September 30, 2007

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
<b>REVENUES</b>				
State grants				
State General Fund - MDCH Contract	\$1,688,874	\$1,631,551	\$1,635,585	\$4,034
Adult Benefit Waiver	144,799	171,795	171,795	-
Title XX	5,843	5,842	5,843	1
Total state grants	<u>1,839,516</u>	<u>1,809,188</u>	<u>1,813,223</u>	<u>4,035</u>
Federal grants	<u>43,868</u>	<u>38,000</u>	<u>39,102</u>	<u>1,102</u>
Contributions - local units				
County appropriations	<u>288,243</u>	<u>288,243</u>	<u>288,243</u>	<u>-</u>
Charges for services				
Medicaid - affiliate	10,358,695	10,622,160	10,626,149	3,989
Medicaid - other	70,051	63,928	64,205	277
Client and third party pay	255,947	189,128	190,578	1,450
Contract revenue	<u>30,204</u>	<u>48,870</u>	<u>47,352</u>	<u>(1,518)</u>
Total charges for services	<u>10,714,897</u>	<u>10,924,086</u>	<u>10,928,284</u>	<u>4,198</u>
Interest and rents				
Interest	<u>54,210</u>	<u>81,928</u>	<u>81,928</u>	<u>-</u>
Other revenue				
Cass Valley Enterprises	1,836,384	808,867	820,036	11,169
Other	<u>50,394</u>	<u>31,637</u>	<u>29,588</u>	<u>(2,049)</u>
Total other revenue	<u>1,886,778</u>	<u>840,504</u>	<u>849,624</u>	<u>9,120</u>
Total revenues	14,827,512	13,981,949	14,000,404	18,455
<b>EXPENDITURES</b>				
Health & welfare - mental health				
Personnel costs	6,375,261	6,048,323	6,022,492	25,831
Operating expenditures	8,139,246	7,607,847	7,664,795	(56,948)
Capital outlay	60,000	1,150,000	1,175,339	(25,339)
Debt service	<u>228,145</u>	<u>206,765</u>	<u>211,135</u>	<u>(4,370)</u>
Total expenditures	<u>14,802,652</u>	<u>15,012,935</u>	<u>15,073,761</u>	<u>(60,826)</u>
Excess of revenues over expenditures	24,860	(1,030,986)	(1,073,357)	(42,371)
Other financing sources (uses)				
Loan proceeds	-	1,150,000	1,001,002	(148,998)
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>22,730</u>	<u>22,730</u>
Total other financing sources (uses)	<u>-</u>	<u>1,150,000</u>	<u>1,023,732</u>	<u>(126,268)</u>
Excess of revenues and other sources over (under) expenditures and other uses	24,860	119,014	(49,625)	(168,639)
Fund balance, beginning of year	<u>915,332</u>	<u>915,332</u>	<u>915,332</u>	<u>-</u>
Fund balance, end of year	<u>\$940,192</u>	<u>\$1,034,346</u>	<u>\$865,707</u>	<u>(\$168,639)</u>

See Accompanying Notes To Financial Statements

## **OTHER SUPPLEMENTAL INFORMATION**



Tuscola County Community Mental Health Authority  
Supporting Schedule of Personnel Costs  
For the Years Ending September 30, 2007 and 2006

	<u>General Fund</u>	
	<u>2007</u>	<u>2006</u>
<b>Personnel Costs</b>		
Salaries and wages	\$4,576,362	\$4,694,852
Fringe benefits	<u>1,446,130</u>	<u>1,382,777</u>
Total personnel costs	<u><u>\$6,022,492</u></u>	<u><u>\$6,077,629</u></u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Supporting Schedule of Operating Expenditures  
For the Years Ending September 30, 2007 and 2006

	General Fund	
	2007	2006
<b>Operating Expenditures</b>		
Client activities	\$18,817	\$84,220
Communications	142,530	138,200
Contractual services	4,591,078	4,423,109
Institutional and state residential care	415,016	487,792
Insurance	117,562	132,420
Local funds contribution	282,804	282,805
Other	88,015	117,203
Private hospitalization	447,743	319,094
Printing and publishing	47,460	57,052
Raw materials	421,824	1,278,829
Rental expense	416,685	442,388
Repairs and maintenance	122,515	73,630
Supplies	350,492	324,189
Travel	82,442	81,863
Utilities	119,812	119,507
Total operating expenditures	<u>\$7,664,795</u>	<u>\$8,362,301</u>

See Accompanying Notes To Financial Statements



## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Tuscola County Community Mental Health Authority  
Caro, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tuscola County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood

that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 15, 2008.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 15, 2008

## **Tuscola County Community Mental Health Authority Schedule of Findings and Responses**

### Finding 2007-1

#### Finding considered a significant deficiency

Effective for the year ended September 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended September 30, 2007, required relatively few audit adjustments, most of which the staff were aware needed to be recorded. The staff of the Authority does understand all information included in the annual financial statements; however, we assist in preparing the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

#### Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.





## MANAGEMENT LETTER

Board of Directors  
Tuscola County Community Mental Health Authority  
Caro, Michigan

In planning and performing our audit of the financial statements for Tuscola County Community Mental Health Authority, for the fiscal year ended September 30, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 15, 2008, on the financial statements of Tuscola County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them with you in further detail, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads 'Roslund, Prestage &amp; Co, PC'.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 15, 2008

## **STATUS OF PRIOR YEAR RECOMMENDATIONS**

During the audit we were pleased to note that the recommendations identified in the management letter from the prior year had been implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### Allocation of real estate purchases

During our audit, we found that the Authority did not properly allocate a portion of the current year real estate purchases to land.

Generally accepted accounting principles require that a portion of the real property cost be allocated to land. Accordingly, depreciation expense is not computed on the land cost.

In the future, we recommend an allocation of real property purchases be made between the building components and the land.

### Physical Inventories of Capital Assets

The Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

The *Depreciation and Use Allowance* section of the Circular states that physical inventories must be taken at least once every two years to ensure that assets exist and are in use (Appendix B, Section 11 h).

Management has represented to us that they conduct a physical inventory review of its capital assets every two years. We recommend management continue this practice to ensure that only active, in-service capital assets are included on the Authority's financial statements. This will ensure that capital assets are properly stated and that depreciation is being calculated from a reliable listing. Such physical counts will also help detect the loss or unauthorized use of valuable property.